

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58157

BELLINGHAM SCHOOL DISTRICT NO. 501

Whatcom County, Washington

September 1, 1995 Through August 31, 1996

Issue Date: April 25, 1997

TABLE OF CONTENTS

	Page
<hr/> Management Section <hr/>	
Independent Auditor's Report On Compliance With Laws And Regulations At The Financial Statement Level (Plus Additional State Compliance Requirements Per RCW 43.09.260)	M-1
Independent Auditor's Report On Internal Control Structure At The Financial Statement Level	M-3
Schedule Of Findings:	
1. Associated Student Body Dance Accounting Records At Sehome High School Were Falsified By The Athletic Director/Assistant Principal	M-5
<hr/> Financial Section <hr/>	
Independent Auditor's Report On Financial Statements	F-1
General-Purpose Financial Statements:	
Combined Balance Sheet - All Governmental Fund Types - 1996	F-2
Combined Statement Of Revenues, Expenditures And Changes In Fund Balance - All Governmental Fund Types And Expendable Trust Funds - 1996	F-3
Combined Statement Of Revenues, Expenditures And Changes In Fund Balance - Budget And Actual - All Governmental Fund Types - 1996	F-4
Notes To Financial Statements	F-6
<hr/> Single Audit Section <hr/>	
Independent Auditor's Report On Supplementary Information Schedule Of Federal Financial Assistance	S-1
Schedule Of Federal Financial Assistance - 1996	S-2
Notes To Schedule Of Federal Financial Assistance	S-4
Independent Auditor's Report On Compliance With The General Requirements Applicable To Federal Financial Assistance Programs	S-5
Independent Auditor's Report On Compliance With Specific Requirements Applicable To Major Federal Financial Assistance Programs	S-7
Independent Auditor's Report On Compliance With Specific Requirements Applicable To Nonmajor Federal Financial Assistance Program Transactions	S-9
Independent Auditor's Report On Internal Control Structure Used In Administering Federal Financial Assistance Programs	S-10
<hr/> Addendum <hr/>	
Directory Of Officials	A-1

BELLINGHAM SCHOOL DISTRICT NO. 501
Whatcom County, Washington
September 1, 1995 Through August 31, 1996

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Board of Directors
Bellingham School District No. 501
Bellingham, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of Bellingham School District No. 501, Whatcom County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated January 24, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Bellingham School District No. 501 is the responsibility of the district's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the district complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the district's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the district and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted an instance of noncompliance immaterial to the financial statements which is identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 24, 1997

BELLINGHAM SCHOOL DISTRICT NO. 501
Whatcom County, Washington
September 1, 1995 Through August 31, 1996

Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level

Board of Directors
Bellingham School District No. 501
Bellingham, Washington

We have audited the general-purpose financial statements of Bellingham School District No. 501, Whatcom County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated January 24, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the district, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal

control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings is a material weakness.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 24, 1997

BELLINGHAM SCHOOL DISTRICT NO. 501
Whatcom County, Washington
September 1, 1995 Through August 31, 1996

Schedule Of Findings

1. Associated Student Body Dance Accounting Records At Sehome High School Were Falsified By The Athletic Director/Assistant Principal

On September 20, 1996, Bellingham School District notified the State Auditor's Office that the athletic director/assistant principal at Sehome High School was paying cash to chaperones from Associated Student Body (ASB) dance proceeds. Prior to this date the district contracted with a private consultant to perform an investigation of this matter. We reviewed the information obtained during the district's investigation and the results of preliminary interviews with individuals closely associated with these ASB activities. During our audit, we noted the following irregularities:

- a. The athletic director/assistant principal was the primary ASB advisor and had been paying chaperones from dance proceeds for several years. Statements by the chaperones indicated this practice had been in place for a number of years, and was continued when the current assistant principal was appointed to administer these programs. Previously, all chaperones were paid a specified amount for each event. The current assistant principal continued this practice; however, he only paid selected individuals on specific occasions and in varying amounts. Our audit confirmed that some chaperones received pay for their services while others did not. One chaperone received about \$400 over the past five years and was paid in amounts ranging from \$20 to \$35 per dance. As a result of these unauthorized payroll activities, the district did not deduct or pay normal payroll taxes on compensation paid for these services and did not report these wages to the appropriate state and federal agencies.
- b. Several years ago, the district began using prenumbered tickets to reconcile ticket sales to the amount of funds received from each dance. However, the assistant principal then suggested that ticket sellers either not use the tickets at all, or not tear-off a ticket for each individual who paid to attend the dance. Using these procedures, the assistant principal was able to circumvent district policies and pay chaperones from dance proceeds without detection by the ASB bookkeeper.
- c. The assistant principal usually collected the cash boxes after dances and placed them in the school vault for safekeeping. He subsequently counted these funds, tore off a sufficient number of tickets to match the amount of money on-hand, and submitted the completed reconciliation form to the ASB bookkeeper for further processing. These actions made it appear that the reconciliation had been properly completed and that all funds had been properly accounted for and controlled. Individuals who attended and chaperoned dances in September 1996 reported that no tickets were used and that all tickets were still in the cash box after the dance. The assistant principal prepared false reconciliation forms for these events which indicated the beginning and ending ticket numbers used and then deposited the appropriate amount

of funds with the ASB bookkeeper. These reconciliation forms were false because they represented only the net revenue after chaperone payments had been deducted from dance proceeds.

- d. Sehome High School had not established adequate procedures to provide accountability for all change funds and dance proceeds. The ASB bookkeeper issued and received cash boxes, change funds, and tickets without establishing or verifying accountability for these assets to a specific individual.

Revised Code of Washington (RCW) 28A.325.030 states in part:

Associated student body program fund -- Created -- Source of funds -- Expenditures -- Budgeting -- Care of other moneys received by students for private purposes . . . All moneys generated through the programs and activities of any associated student body shall be deposited in the associated student body program fund . . . Disbursements from such fund shall be under the control and supervision, and with the approval, of the board of directors of the school district

RCW 42.20.070 states:

Misappropriation and falsification of accounts by public officer. Every public officer, and every other person receiving money on behalf or for or on account of the people of the state or of any department of the state government or of any bureau or fund created by law in which the people are directly or indirectly interested, or for or on account of any county, city, town or any school, diking, drainage, or irrigation district, who--

(1) Shall appropriate to his own use or the use of any person not entitled thereto, without authority of law, any money so received by him as such officer or otherwise; or

(2) Shall knowingly keep any false account, or make any false entry or erasure in any account, of or relating to any money so received by him or her; or

(3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account; or

(4) Shall wilfully omit or refuse to pay over to the state, its officer or agent authorized by law to receive the same, or to such county, city, town, or such school, diking, drainage or irrigation district or to the proper officer or authority empowered to demand and receive the same, any money by him as such officer when it is a duty imposed upon him by law to pay over and account for the same, shall be punished by imprisonment in a state correctional facility for not more than fifteen years.

We recommend the district:

- a. Ensure all ASB employees properly perform cash handling and ticket taking activities in accordance with established policies and procedures.

- b. Ensure specific individuals accept responsibility for change funds and accountable documents and forms for ASB activities to improve accountability over public assets.
- c. Process all chaperone payments through the payroll or accounts payable system to ensure all wages are properly reported to the employees and appropriate state and federal agencies.

We refer this matter to the Washington State Office of the Attorney General for their review and any further action deemed appropriate under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Auditee's Response

We have reviewed the draft Audit Finding which you presented to us at the conclusion of your recent audit. We accept your recommendations.

As you pointed out in our presentation, in mid-September, 1996, allegations were made that District procedures for the handling of dance proceeds were not being followed. We conducted an immediate and thorough administrative review of the situation to determine if there was any substance to the charges and informed your office of the situation. After substantiating the factual background with all those involved, we took clear measures to correct the situation and kept your staff informed throughout the process. We take the violation of internal control procedures for handling cash collections and ensuring proper accounting for ASB funds very seriously.

In an attempt to correct the problems noted in your report, we have reassigned administrative duties at Sehome. We prepared revised cash collection procedures that are even more detailed and specific than those previously in place. These new procedures have been reviewed by your field examiners and have been put into practice. We are confident that these changes will prevent any similar problems in the future. We also adopted a district-wide ASB activity payment schedule to ensure that any and all payments are consistent and made through the proper channels. In addition, we are committed to providing continued training opportunities to key staff members to keep them alert to their responsibilities for proper cash handling procedures.

I appreciate the quick and supportive response by you and your staff to work with District and school personnel on this review. I believe our response to this finding will further strengthen and safeguard our procedures for handling ASB funds.

Auditor's Concluding Remarks

We would like to thank Bellingham School District for their response and to acknowledge their efforts in addressing the concerns. Based upon the district's representations, it appears the matters delineated in our report have been addressed, or are being, addressed. We will follow up on these matters in subsequent audits.

BELLINGHAM SCHOOL DISTRICT NO. 501
Whatcom County, Washington
September 1, 1995 Through August 31, 1996

Independent Auditor's Report On Financial Statements

Board of Directors
Bellingham School District No. 501
Bellingham, Washington

We have audited the accompanying general-purpose financial statements of Bellingham School District No. 501, Whatcom County, Washington, as of and for the fiscal year ended August 31, 1996. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the general fixed asset account group, which should be included in order to conform with generally accepted accounting principles. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, except for the effect on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Bellingham School District No. 501 as of August 31, 1996, and the results of operations for the fiscal year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 24, 1997, on our consideration of the district's internal control structure and a report dated January 24, 1997, on its compliance with laws and regulations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 24, 1997

BELLINGHAM SCHOOL DISTRICT NO. 501
Whatcom County, Washington
September 1, 1995 Through August 31, 1996

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Board of Directors
Bellingham School District No. 501
Bellingham, Washington

We have audited the general-purpose financial statements of Bellingham School District No. 501, Whatcom County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated January 24, 1997. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of Bellingham School District No. 501 taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 24, 1997

BELLINGHAM SCHOOL DISTRICT NO. 501
Whatcom County, Washington
September 1, 1995 Through August 31, 1996

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Board of Directors
Bellingham School District No. 501
Bellingham, Washington

We have audited the general-purpose financial statements of Bellingham School District No. 501, Whatcom County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated January 24, 1997.

We have applied procedures to test the district's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended August 31, 1996:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Davis-Bacon Act
- Relocation assistance and real property acquisition
- Subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the district's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the district had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 24, 1997

BELLINGHAM SCHOOL DISTRICT NO. 501
Whatcom County, Washington
September 1, 1995 Through August 31, 1996

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs

Board of Directors
Bellingham School District No. 501
Bellingham, Washington

We have audited the general-purpose financial statements of Bellingham School District No. 501, Whatcom County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated January 24, 1997.

We also have audited the district's compliance with the requirements applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended August 31, 1996. Those requirements include:

- types of services allowed or unallowed
- eligibility
- matching, level of effort, or earmarking
- reporting
- special tests and provisions related to (CFDA 84.010) Educationally Deprived Children/Local Education Agencies (Title I) - timely obligation of funds, schoolwide projects, parental involvement, private school participation, and carryover of funds as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments*
- claims for advances and reimbursements
- amounts claimed or used for matching

The management of the district is responsible for the district's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the district's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, Bellingham School District No. 501 complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance programs for the fiscal year ended August 31, 1996.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 24, 1997

BELLINGHAM SCHOOL DISTRICT NO. 501
Whatcom County, Washington
September 1, 1995 Through August 31, 1996

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions

Board of Directors
Bellingham School District No. 501
Bellingham, Washington

We have audited the general-purpose financial statements of Bellingham School District No. 501, Whatcom County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated January 24, 1997.

In connection with our audit of the financial statements of the district and with our consideration of the district's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to its nonmajor federal financial assistance programs for the fiscal year ended August 31, 1996. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the district's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that Bellingham School District No. 501 had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 24, 1997

BELLINGHAM SCHOOL DISTRICT NO. 501
Whatcom County, Washington
September 1, 1995 Through August 31, 1996

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Board of Directors
Bellingham School District No. 501
Bellingham, Washington

We have audited the general-purpose financial statements of Bellingham School District No. 501, Whatcom County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated January 24, 1997. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated January 24, 1997.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the district complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the district's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated January 24, 1997.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Accounts payable
 - Purchasing and receiving
 - Payroll
 - General ledger
- **General Requirements**
 - Political activity
 - Civil rights
 - Cash management
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements, including subrecipient monitoring
- **Specific Requirements**
 - Types of services
 - Eligibility
 - Matching, level of effort, earmarking
 - Reporting
 - Special requirements
- **Claims For Advances And Reimbursements**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Cash receipts
 - Cash disbursements
 - Receivables
 - Inventory control
 - Property, plant, and equipment
- **General Requirements**
 - Davis-Bacon Act
 - Relocation assistance and real property acquisition

- **Amounts Claimed Or Used For Matching**

During the fiscal year ended August 31, 1996, the district expended 76 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the district's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 24, 1997